AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION

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Good morning, and thank you very much.

Let me express my sincere thanks to Lisa Maruyama for inviting me to meet with you today. It is my great pleasure to be here to discuss one of Hawaii's signal trade opportunities and America's most important trade and foreign policy goals: China's WTO accession and permanent Normal Trade Relations.

ONE-WAY CONCESSIONS

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement also strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton has sent to Congress, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

That is the only policy issue before Congress. China will enter the WTO whether or not Congress grants it permanent NTR. It will continue to export to the U.S. regardless of our debate. The issue before us is narrow: whether we will agree to accept the benefits of China's accession and the agreement we negotiated, or turn them down and give them to the rest of the world.

DEEPER ISSUES

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so. But it is also, I believe, appropriate to think about the wider implications of this agreement. Because when Senators Inouye and Akaka, and Representatives Abercrombie and Mink, come to the floor to speak on the China PNTR question, they will be discussing a decision of great importance not only for Hawaiian agriculture, tourism and manufacturing; but a strategic question of central importance to the scholars at the East-West

Center, the officer corps at the Pacific Fleet and ultimately the young men and women who will graduate from Hawaii's colleges and high schools later this spring.

The reason for this is very clear. China is the world's largest country. Over the past decade, it has been the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st strategy; and nowhere will this be felt more directly than in Hawaii. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These disagreements and points of tension often dominate the China debate. Many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin to see its fundamental importance if we trace back to its origins the institution China now seeks to join.

AMERICA AND THE TRADING SYSTEM

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of trade protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which deepened the Depression and contributed to the political upheavals of the era in Europe and the Pacific. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades: collective security, reflected by the United Nations, NATO and our Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Stepping back for a moment, half a century of experience fully vindicates the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And as Truman and his colleagues predicted, in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

Our Asia policies today reflect the fundamental principles of postwar American strategy:

– Our military presence in the Pacific, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.

– Our advocacy of human rights, over the years, has helped to support the movement toward democracy and the rule of law in much of Asia.

– Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.

– And our Asian trade policy – since 1992, we have created a regional framework for open trade through APEC; concluded nearly 300 trade agreements worldwide and almost 100 in Asia, including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and moved toward normalized economic relations with Vietnam, Laos and Cambodia – is helping to build a more open region with greater prospects for sustainable growth in the years ahead.

CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road after the war.

With the revolution in 1949, China shut the doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. This is a trend of immense importance most of all to China's people, but also to American interests in

an open, stable and peaceful region. And thus, American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform.

CHINA WTO ACCESSION

The bilateral agreement we reached with China last November is the culmination of this patient, detailed work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports. As it helps China create a more open and efficient economy, it will help us redress a deeply imbalanced trade relationship. To offer you a look at the details:

In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005, eliminate all quotas and discriminatory taxes, and of critical importance, in virtually all products allow full distribution and trading rights.

In services, China's markets will open across the board. In fields such as distribution and telecom, China will open to direct foreign participation for the first time since the 1940s. In tourism, China will offer substantial new opportunities to Hawaii's leading industry, with travel agencies now able to provide a full range of services for Americans in China, such as access to government resorts and major tourist centers.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. This affects every product from canned macadamia nuts to papaya, beef, and even ornamental goldfish. China will also expand access for bulk agricultural products; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

And the agreement gives American workers and businesses stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China.

All these commitments are fully enforceable, through a broad variety of means, including U.S. trade laws, WTO dispute settlement, multilateral coordination and other special measures.

PERMANENT NORMAL TRADE RELATIONS

China will join the WTO regardless of the outcome of our debate. What Congress must decide is whether we will accept the full benefits of their accession and the historic agreement we negotiated, or simply give them to our competitors. And that brings me to permanent Normal Trade Relations status.

By contrast to China's historic set of commitments, we make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our trade laws.

We have only one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and factory workers, as well as service providers, would be left behind.

WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR for China. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather economic opening to and engagement with the world, and ultimately development of the rule of law, inherent in the initiative President Truman began in 1948. That is why some of the leading advocates of democracy and human rights in Hong Kong and China – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party – see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. Economic reform has thus helped move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values – as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as we will do this week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20th century:

> "We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights."

In this spirit, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

CONCLUSION

Each step in our China trade policy since 1972 has rested upon concrete American

interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world.

And China's WTO accession, together with permanent NTR, will be the most significant step in this process for many years.

That is the opportunity before us. These are the stakes. And that is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.